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Notice of Inquiry )

Metering, Billing and Information Services and ) D.T.E. 00-41

Distribution Company Franchises )

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REPLY COMMENTS OF THE NSTAR COMPANIES IN RESPONSE TO NOTICE OF INQUIRY REGARDING COMPETITIVE METERING, BILLING AND INFORMATION SERVICES AND EXCLUSIVITY OF DISTRIBUTION COMPANY FRANCHISES

Submitted By:

Boston Edison Company

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## I. INTRODUCTION

Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company (collectively, the "NSTAR Companies") submit these reply comments in response to the Notice of Inquiry issued by the Department of Telecommunications and Energy (the "Department") on June 12, 2000, regarding metering, billing and information services ("MBIS") and distribution company franchises. The NSTAR Companies filed their initial comments on August 1, 2000, in accordance with the procedural schedule established by the Department for this proceeding. In addition to the NSTAR Companies, the Department received initial comments from Automated Energy, Inc., Bay State Gas Company ("Bay State"), the Cape Light Compact, Fitchburg Gas and Electric Light Company ("Fitchburg"), William F. Hunter (individual), the Low-Income Energy Affordability Network ("LEAN"), Massachusetts Electric Company and Nantucket Electric Company ("National Grid"), MHI PowerOptions ("PowerOptions"), the National Energy Marketers Association ("NEM"), Robert S. Ruda (individual); Schlumberger Resource Management Services ("Schlumberger RMS"), Sithe New England Holdings ("Sithe"), Utility.com, the Utility Workers Union of America (the "Union"), and Western Massachusetts Electric Company ("WMECo"). The Department also received joint comments from the Attorney General, the Division of Energy Resources, Associated Industries of Massachusetts and the Energy Consortium (the "Customer Group") and seven natural gas local distribution companies(1) operating in the Commonwealth (together with Bay State, the "LDCs").

As discussed below, the NSTAR Companies support the comments of Fitchburg, National Grid, and WMECo (together with the NSTAR Companies, the "Electric Companies"), as well as the Union, LEAN, the LDCs and others asserting that the unbundling of MBIS in the Commonwealth would: (1) produce increased costs rather than substantive savings for customers; (2) create unwarranted customer confusion and dissatisfaction; and (3) adversely affect utility employee staffing levels and the quality of electric distribution service. In support of those assertions, the Electric Companies provided quantitative analyses demonstrating that minimal costs would be avoided by distribution companies if customers were allowed to obtain MBIS from alternative competing suppliers rather than the distribution company, and that such minimal cost savings would be offset by the additional costs that would be incurred by distribution companies to accommodate the unbundling of MBIS. The economic analysis provided by the NSTAR Companies further demonstrates that economies of scale and scope continue to exist in the provision of these services by the distribution companies, and therefore, the total costs that customers bear for MBIS would increase if MBIS were unbundled and provided by various competitive suppliers. In addition, the Electric Companies, the Union, LEAN, the LDCs and other commenters have shown that important non-cost factors such as quality of service, reliability, effective operation of the distribution system, customer satisfaction and the efficient utilization of skilled utility personnel would be undermined by the unbundling of MBIS.

Conversely, the commenters in this proceeding who advocate for the unbundling of MBIS have failed to support their arguments with any demonstration that the unbundling of MBIS would produce substantive savings for customers and that such unbundling could be accomplished without significant disruptions to employee staffing levels. The recommendations of these commenters are based solely on speculation that benefits may result from the introduction of competition for MBIS. Moreover, several of these commenters rely upon the existence of MBIS initiatives in other states as experience favoring the unbundling of MBIS. However, such initiatives are far from supportive of the introduction of a similar initiative in Massachusetts. Accordingly, the Department should conclude that the unbundling of MBIS in the Commonwealth does not meet the requirements imposed by Section 312 of the Act, and therefore, should not be proposed or recommended to the Legislature.

## II. THE UNBUNDLING OF MBIS WILL INCREASE OVERALL COSTS TO CUSTOMERS AND WILL HAVE AN ADVERSE EFFECT ON NON-COST FACTORS

### A. Commenters Agree That Customers Will Not Realize Substantive Savings From Unbundled MBIS.

The statutory mandate, explicitly set forth in Section 312 of the Act, requires the Department to assess whether the unbundling of MBIS will produce substantive savings for customers, and, if so, whether such savings can be achieved without disruptions to employee staffing levels. In this proceeding, the Electric Companies, the Union, LEAN, the LDCs and others have demonstrated that the unbundling of MBIS would increase the overall cost of MBIS for customers and would adversely affect important non-cost factors such as the quality of service provided to customers and the ability of the distribution companies to continue to operate the distribution system in a reliable and effective manner.

As indicated by the Electric Companies in their initial comments, in order to determine whether substantive savings would accrue to customers as a result of unbundling MBIS, the Department must consider both the level of costs that would be avoided by the distribution companies as a result of unbundling MBIS and the incremental costs that would be incurred by the distribution companies to accommodate such unbundling. The Electric Companies provided the Department with detailed information analyzing both the cost of providing MBIS as a part of distribution service and the costs that would be avoided if MBIS were to be provided on an unbundled competitive basis (see, e.g., NSTAR Companies Initial Comments at 17-20 and App. B; Fitchburg Initial Comments at Att. 1; WMECo Initial Comments at App. 2; National Grid Initial Comments, App. 1 and 2). Thus, the record indicates that the level of costs that could be avoided by the distribution companies as a result of the unbundling of MBIS would be minimal. In addition, the record indicates that significant incremental costs would need to be incurred by distribution companies in order to accommodate the provision of MBIS services by competitive suppliers, and that these incremental costs would offset any savings resulting from such an initiative (NSTAR Companies Initial Comments at 19).

An econometric analysis of MBIS costs performed by the Pacific Economics Group ("Pacific") and submitted with the initial comments of the NSTAR Companies shows that significant economies of scale continue to exist in the provision of MBIS by the distribution companies (NSTAR Companies Initial Comments at 15; App. A). Based on the results of the model used by Pacific, it was estimated that, over the long term, a 1 percent increase in the number of customers being served will increase the cost of metering and billing by only 0.93 percent (NSTAR Companies Initial Comments at 15; App. A at 38). This cost structure indicates that average total costs of MBIS decrease with each customer added to the distribution system, as the fixed costs associated with providing MBIS are spread over a larger number of billing units (id.). The cost characteristics of providing MBIS are indicative of the presence of a natural monopoly which, if unbundled and opened to the competitive market, would increase overall costs for customers.

The Pacific study also explained that, in addition to the economies of scale estimated through the econometric analysis of MBIS costs, there are also significant economies of scope associated with providing these services in conjunction with the provision of electric distribution service (NSTAR Companies Initial Comments at 15; App. A at 7-10, 13-18, 40). The economies of scope and scale estimated by Pacific are two types of "productive" efficiencies that are present when electric distribution companies both deliver electricity and provide MBIS. The Pacific study indicates that the loss of these efficiencies would affect customers since distribution companies and their customers would be unable to capture ongoing economies of scale or scope if MBIS were unbundled and provided to some customers by alternative competitive MBIS providers. Accordingly, the Department should find that substantive cost savings will not result from the unbundling of MBIS and should recommend to the Legislature that no such action be taken.

B. Commenters Agree That Important Non-Cost Factors Weigh Against the Introduction of Unbundled MBIS.

In their Initial Comments, the NSTAR Companies identified several non-cost factors that should be considered by the Department when analyzing the impacts of unbundled MBIS, including: (1) distribution-system reliability and safety; (2) customer satisfaction and confidence in the utility industry; (3) the impact of unbundling on the development of a competitive generation market; and (4) the ability of the Department to maintain sufficient and appropriate control and oversight over the quality of service and the integrity of information afforded to customers (NSTAR Companies Initial Comments at 20-21). Several commenters in this proceeding, including the Electric Companies, the Union, the LDCs and LEAN, have recognized that non-cost factors are relevant to the Department's analysis in this proceeding and argue that the unbundling of MBIS would adversely affect these factors.

1. Distribution-System Reliability and Safety Would Be Undermined by the Introduction of Unbundled MBIS.

Several commenters support the NSTAR Companies' position that distribution-system reliability and safety would be undermined if MBIS were unbundled (see National Grid Initial Comments at 26-27; WMECo Initial Comments at 7-8; Fitchburg Initial Comments at 4; Union Initial Comments at 14). The record reflects that the current regulatory framework provides the distribution-company with the ability to control data measurement, collection, and management processes on a cost-effective basis, which is key to maintaining distribution system reliability (National Grid Initial Comments at 26-27; WMECo Initial Comments at 7-8; Fitchburg Initial Comments at 4; Union Initial Comments at 14). In addition, several commenters recognize that the interface of competitively supplied metering technologies with those used by the distribution companies is a critical factor in ensuring that accurate data is provided to distribution companies and ISO-New England to prepare load forecasts, design distribution system upgrades and allocate wholesale power supply responsibilities (see Union Initial Comments at 14; WMECo Initial Comments at 7; National Grid Initial Comments at 26-27). These commenters note that the risks associated with incorporating incompatible meter technologies with those used by distribution companies are reduced significantly when distribution companies have exclusive responsibility for MBIS (WMECo Initial Comments at 7; National Grid Initial Comments at 27). Significantly, the MBIS unbundling experience in California indicates that system reliability and information-systems compatibility are areas of continuing concern and that, among the more severe problems encountered in implementing third-party MBIS, is the lack of compatibility of competitively supplied meters and resulting usage data with the meters and customer information systems of the distribution companies (NSTAR Initial Comments, App. D, at 4, 42-46).(2)

Moreover, commenters note that important operational advantages accrue when metering and distribution services remain integrated because meter-related activities provide significant operational benefits to distribution-related activities such as network maintenance, operations and planning (WMECo Initial Comments at 8; Union Initial Comments at 13). For example, the record indicates that integration of metering and distribution services enhances the distribution company's ability to locate faults, optimize substation maintenance, reduce line losses and rapidly dispatch service crews to restore power (WMECo Initial Comments at 8). In addition, the record indicates that MBIS workers provide key support in outage-restoration efforts (NSTAR Companies Initial Comments at 22; Union Initial Comments at 10-11). Thus, the introduction of unbundled MBIS and the resulting employee staffing reductions would likely have an adverse effect on an electric company's ability to respond to outages and other emergencies (NSTAR Initial Comments at 22; Union Initial Comments at 11).

2. Customer Satisfaction and Confidence in the Industry Will Be Adversely Affected by the Introduction of Unbundled MBIS.

A number of commenters noted that customer satisfaction and confidence in the electric industry would be adversely affected by the introduction of unbundled MBIS because the current regulatory framework minimizes customer confusion associated with collection and reporting of metering and billing information and maximizes customer privacy (see WMECo Initial Comments at 7; Fitchburg Initial Comments at 4; see also Union Initial Comments at 12).(3) Moreover, under the current regulatory framework, utility companies are directly accountable for the interrelated services that are necessary to deliver power to customers (NSTAR Companies Initial Comments at 22). As a result, customers receive a cost-effective bundle of services from the distribution utility, as well as the ability to switch freely to a competitive generation provider without the confusion and delay of changing meters and/or billing services (id.). This construct provides customers with a central contact point for information regarding MBIS and historical usage data. Maintaining this central point of contact with a known entity having a local presence will minimize customer confusion and improve customer access to billing and usage information (Fitchburg Initial Comments at 4).(4)

As noted by commenters, customers are presently able to call their distribution company 24 hours a day, every day of the year, in an emergency (Union Initial Comments at 11). Competitive suppliers are not required to have 24-hour, seven-day coverage to field customer concerns and inquiries. On more routine matters, the distribution company's customer-service staff has the ability to access all relevant information and call upon other company departments to obtain any needed information (id.). In addition, customers who receive a bill for distribution service from a competitive supplier or other third party may mistakenly believe that they can rely on their supplier for services that can be provided only by their distribution company. Therefore, the unbundling of MBIS has significant potential to create customer confusion and adversely affect the quality of service provided to customers.

3. The Introduction of Unbundled MBIS Will Erect Barriers to Customer Choice in the Generation Market.

Some commenters in this proceeding make the unsupported assertion that unbundling MBIS may aid in the development of retail choice (Customer Group Initial Comments at 11, Sithe Initial Comments at 15-16; Utility.com Initial Comments at 6-7; Automated Energy Initial Comments at 1-7; Power Options at 1-2). As noted by other commenters, however, the unbundling of MBIS may actually erect barriers to customer choice in the generation market (National Grid Initial Comments at 17-18, 20; WMECo Initial Comments at 8). The provision of MBIS by distribution companies eliminates a potential barrier to entry because new suppliers can rely on the distribution company to provide a meter and to ensure its accuracy, thereby eliminating such responsibility for the supplier (National Grid Initial Comments at 17). Additionally, an impediment to retail choice is eliminated with bundled MBIS because distribution companies own and operate meters regardless of supplier (id.) Thus, a customer is free to switch suppliers without having to make special arrangements for changing meters or experiencing related delays in the commencement of service from a new supplier (id.). Commenters also note that by unbundling MBIS and allowing competitive suppliers to provide these services, suppliers may use their meters as impediments to customers choosing a different supplier for generation service (id. at 18; WMECo Initial Comments at 8). This incentive is nonexistent for distribution companies because they no longer supply generation services to customers, and therefore, are neutral as to the customer's choice of supplier (National Grid Initial Comments at 18).

It is interesting to note that even a proponent of unbundled MBIS states that unbundled MBIS will not act as retail-market catalyst for small customers, (see Utility.com Initial Comments at 7). Utility.com concludes that a recent study of the California metering market found that "well below one tenth of one percent" of customers in that state are receiving meters from competitive suppliers and that nearly all of them are large customers (id. at 7-8). Utility.com's conclusion as to why this result has occurred in California was "simple economics…metering [by competitive suppliers] is too expensive for small customers" (id. at 8). These comments support the conclusion that unbundled MBIS will provide barriers to the competitive generation market, rather than assist in its development.

4. The Department's Ability To Maintain Sufficient Control Over Consumer Protections and Service Quality Will Be Eroded Upon the Introduction of Unbundled MBIS.

Several commenters noted that the Department's oversight of service quality and customer protections will be eroded upon the introduction of unbundled MBIS (National Grid Initial Comments at 23-26; Fitchburg Initial Comments at 4; Union Initial Comments at 13-14; Bay State Initial Comments at 6; LEAN Initial Comments at 2). For instance, many of the Department's consumer-protection requirements are directed at protecting customers from improper termination as the result of non-payment or other billing issues, consistent with a distribution company's obligation to serve all customers in its service territory (see National Grid Initial Comments at 24; Union Initial Comments at 13-14; Bay State Initial Comments at 6). The contractual and voluntary nature of a competitive supplier's relationship with a customer necessarily means that such customers are vulnerable to market-collection practices in the event of a billing dispute (National Grid Initial Comments at 24). Diminished regulatory oversight is a particular concern of LEAN, a group representing the concerns of low-income customers (LEAN Initial Comments at 2). Accordingly, the Department must consider the potential adverse customer impacts that can result from diminished regulatory oversight of competitive suppliers providing unbundled MBIS.

As discussed above, the comments offered in this proceeding by a diverse group of utility, employee and consumer interests demonstrate that the unbundling of MBIS would increase the overall cost of MBIS for customers (rather than producing substantive savings). These comments also recognized that unbundling MBIS would adversely affect important non-cost factors involving the quality of service provided to customers, the ability of the distribution companies to reliably and effectively operate the distribution system and the efficient utilization of skilled utility personnel. These comments are supported by quantitative and qualitative analysis of the ramifications of unbundling MBIS from distribution service. The NSTAR Companies believe that these comments contrast starkly with the unsupported arguments offered by others in this proceeding, as discussed below.

III. THERE IS NO BASIS IN THE RECORD OF THIS PROCEEDING TO SUPPORT A FINDING THAT THE UNBUNDLING OF MBIS WILL MEET THE STATUTORY STANDARD

The Customer Group, Schlumberger RMS, Utility.com, Automated Energy and PowerOptions advocate for the unbundling of MBIS based on the unsupported conclusion that the introduction of competition into the delivery of MBIS has the potential to produce "significant" benefits to electricity customers and the economy in Massachusetts. (see Customer Group Initial Comments at 7-11; Schlumberger RMS Initial Comments at 2-8; Utility.com Initial Comments at 3-6; Automated Energy Initial Comments at 3-5 and MHI Power Options Initial Comments at 1-2). These commenters make a number of claims regarding the benefits of unbundling MBIS to customers, including the offering of new products and services, lower costs for current services, increased efficiency of energy use, improved reliability of generation supplies, improved reliability of distribution systems and accelerated competition in the retail market. These claims, however, are unsupported by the record and are based only upon generalizations about potential benefits that could result from unbundling MBIS while ignoring the experience of other states that have commenced MBIS unbundling initiatives. Moreover, to the extent that these commenters suggest that cost savings would be achieved as a result of enhanced demand-side management opportunities, the record indicates that such benefits are attainable under the existing bundled MBIS framework and without the risk that customers will experience the adverse affects associated with the unbundling of MBIS.

A. Arguments in Favor of the Unbundling of MBIS Fail To Demonstrate That Such Action Will Produce Substantive Cost Savings for Customers.

Several commenters, including the Customer Group, Schlumberger RMS, Utility.com, Automated Energy and PowerOptions advocate the unbundling of MBIS from distribution service. These commenters, however, have not demonstrated that substantive savings will inure to the benefit of customers as a result of such unbundling, as required by the Act. Of particular note is the Customer Group's suggestion that distribution companies be required to provide "a minimum necessary level" of services to customers who do not select a competitive supplier of MBIS or who cease to take service from such a supplier (Customer Group Initial Comments at 11). Thus, while claiming that costs will be reduced as a result of unbundling MBIS, the Customer Group at the same time suggests that the Department should require distribution companies to continue providing the services for those customers who are unwilling or unable to participate in the competitive market or who change their mind about receiving such services from competitive suppliers. The Customer Group emphasizes that "default" MBIS should be similar to the characteristics of basic MBIS services provided by distribution companies today (id. at 12). The Customers Group also suggests that the Department could allow the lowest bidder among competitive suppliers to provide such a "default" MBIS service, which may minimize costs, and that the Department could determine whether "some or all of the components of MBIS" should be transferred to the winner of a competitive bid (id. at 12).

Significantly, the Customer Group provides no demonstration that substantive cost savings will accrue to customers as a result of unbundling MBIS or as a result of creating a "default" MBIS service. In fact, what the Customer Group is suggesting is that distribution companies would continue to play a significant role in the provision of MBIS services while the economies of scale and scope inherent in their existing operations are eroded through the migration of customers to competitive suppliers and the outsourcing of various "components" of MBIS. As demonstrated through the cost analysis provided by the NSTAR Companies, such an outcome can only increase overall costs to customers (NSTAR Companies Initial Comments at 14-15). Significantly, the Customer Group acknowledges that unbundling MBIS will reduce scale economies and may produce "slight" increases in the per-customer cost of providing such services as customers migrate to competitive suppliers (Customer Group Initial Comments at 12).

In addition to the cost increases resulting from the erosion of economies of scale, the Customer Group concedes that "one-time" costs will be incurred by the distribution companies to modify existing metering and billing systems to accommodate the unbundling of MBIS (id. at 12). The Customer Group concludes that these cost increases "are likely to be more than off-set by efficiencies achieved by distribution companies as they enhance the technologies and information systems used to provide these services" (id.). In order to achieve the efficiency benefits of the "enhanced technologies and information systems" alluded to by the Customer Group, however, the distribution companies would need to make significant additional investments. Thus, what the Customer Group has not considered is that these costs will be borne by a smaller customer base where MBIS has been unbundled from distribution service and is being provided to some customers on a competitive basis. Since commenters who support the unbundling of MBIS have provided no quantification of potential cost savings and since other commenters have demonstrated that the unbundling of MBIS will erode economies of scale and scope and will require additional investment by the distribution companies to coordinate unbundling, there is no basis for the Department to conclude that the unbundling of MBIS will produce substantive savings for customers.

Moreover, the Customer Group acknowledges the potential for employee displacements resulting from the unbundling of MBIS and states that "the impact will be more pronounced if customers move to competitive suppliers at a rapid rate" (id. at 12-13). The Act, however, requires that if MBIS is to be unbundled it must be accomplished with "little, if no, disruptions to staffing levels" of the distribution companies, whereas the comments and analysis submitted in this proceeding demonstrate that the unbundling of MBIS would require significant staffing-level disruptions (Union Initial Comments at 9-10). Because the Customer Group and other commenters advocating for the unbundling of MBIS have failed to demonstrate that substantive savings will accrue to customers with little or no disruption to staffing levels, the Department must reject their recommendation that MBIS be unbundled from distribution service and opened to competition.

B. There Is No Basis for the Conclusion That Unbundled MBIS Will Spur Competition in the Retail Generation Market or Promote Advanced Metering Technologies.

The Customer Group, Sithe, Utility.com, Automated Energy and PowerOptions claim that the unbundling of MBIS may spur competition in the retail generation market (Customer Group Initial Comments at 11, Sithe Initial Comments at 15-16; Utility.com Initial Comments at 6-7; Automated Energy Initial Comments at 1-7; Power Options at 1-2). The Customer Group claimed that the "inability to exploit opportunities to combine generation supply with competitive MBIS offerings" has been cited by some as a deterrent to entry into the market (Customer Group Initial Comments at 10-11). Others assert that the unbundling of MBIS will result in the introduction of new, advanced measurement and reporting technologies and services and that the presence of these new metering technologies will spur competition and lower prices as better price signals are given to customers (Sithe Initial Comments at 15-16;(5) Utility.com Initial Comments at 6-7; Automated Energy Initial Comments at 1-7; Power Options Initial Comments at 1-2). As discussed below, however, none of these commenters provides empirical evidence or other support for these claims.

The Customer Group makes its claim regarding the purported effect of unbundled MBIS on the development of a competitive generation without any support beyond general speculation. For instance, although acknowledging that high wholesale generation prices have stifled competition, the Customer Group states that "allowing competitive MBIS offerings could provide further encouragement for the development of the retail generation market by offering increased opportunities for competitive suppliers to serve retail customers" (Customer Group Initial Comments at 11). However, the Customer Group provided no information to support this conclusion. Accordingly, the Department should discount the Customer Group's claim as mere speculation.

In addition, commenters advocating for the unbundling of MBIS as a means of providing customers with advanced metering technology ignore the fact that distribution companies are already providing customers with enhanced technologies for MBIS. Indeed, Sithe admits that "it is…possible that unbundling is not required for the proliferation of advanced MBIS," citing the Department's existing terms and conditions for delivery service outlined in D.P.U./D.T.E. 97-65, at 59 (December 31, 1997) (Sithe Initial Comments at 15). Schlumberger RMS also described what it believes are the benefits of advanced metering, but stated that it is neutral as to whether metering should be made competitive (Schlumberger RMS Initial Comments at 1-7). Such comments recognize that whatever the benefits of advanced MBIS technologies may be, such benefits are not linked to the unbundling of MBIS.

Moreover, the Department's efforts to encourage more efficient energy use through the utilization of advanced metering technology are longstanding, and involve time-of-use pricing and time-of-use meters to measure electricity use. See, e.g., Massachusetts Electric Company, D.P.U. 89-21, at 47-48 (1989); Massachusetts Electric Company, D.P.U. 84-146, at 83 (1986); Fitchburg Gas & Electric Company, D.P.U. 84-145-A at 116-117 (1985). Time-of-use meters are currently available for large industrial customers and have been utilized by many customers for a significant number of years (NSTAR Companies Initial Comments at 23-24). Further, customers can use pulse interfaces to existing meters to gain access to additional information for enhanced energy-management systems (id.). Thus, electric distribution companies are utilizing technology to provide greater access to customer-usage data and are working with customers and suppliers to provide them with more sophisticated metering options (id.).

Given the continued existence of economies of scale and scope, distribution companies are able to provide customers with advanced MBIS technologies in the most cost-effective manner. For instance, because utilities serve all customers in a service territory, utilities can employ a network of automated meter-reading technology that provides advanced metering at "much lower costs" (see Utility.com Initial Comments at 8-9, advocating that distribution companies should have the responsibility for delivering advanced metering to small customers). Therefore, to the extent that customer benefits would stem from the availability of advanced metering, no commenter has provided a basis for the conclusion that such benefits are available only through the unbundling of MBIS. The distribution companies can make these advanced technologies available on a cost-effective basis and without adversely affecting the quality or reliability of distribution service, the effective operation of the distribution system and the efficient utilization of skilled utility workers.

C. A Pilot MBIS Program Is Unnecessary and Unworkable.

Sithe suggests that the Department recommend to the Legislature the authorization of a pilot program, which would allow the unbundling of MBIS on a limited basis in an effort to determine if the benefits of unbundling MBIS outweigh the associated costs (Sithe Initial Comments at 21). Sithe states that a pilot program could answer questions regarding: (1) customer demand for advanced metering; (2) compatibility of competitively supplied meters with distribution systems; (3) the likelihood of marketers to offer time-of-use or interruptible service; and (4) unanticipated problems associated with competitive metering (id. at 21). Although Sithe has not provided any details about the structure of a pilot program, the commencement of a pilot program is unlikely to provide results that differ significantly from the experience of other jurisdictions that have already initiated the unbundling of MBIS.

For example, California's MBIS unbundling initiative has been in place for over a year. As reflected in the Pacific study attached as Appendix D to NSTAR's Initial Comments, the unbundling of MBIS has not produced significant cost savings, nor is there burgeoning customer demand for the provision of MBIS on a competitive basis. In fact, the record indicates that only a small number of customers are taking advantage of competitive metering opportunities in California (Utility.com Initial Comments at 7-8).

In addition, the implementation of a pilot program would be costly. Significantly, the establishment of a pilot program that would provide meaningful information relating to the issues raised by Sithe would require the expenditure of many of the fixed costs associated with the full unbundling of MBIS (see NSTAR Companies Initial Comments, App. D at 3-5). Such costs would include costs associated with upgrading and redesigning business process and creating communications architectures and other system changes necessary to ensure compatibility with alternative MBIS providers. Thus, a pilot program would merely represent a costly initiative to develop duplicative data and information, which is already available from programs initiated in other jurisdictions. Accordingly, the Department should reject Sithe's suggestion that a pilot program be implemented to study the impacts of unbundling MBIS.

## IV. THERE IS NO DISPUTE THAT EXCLUSIVE DISTRIBUTION SERVICE TERRITORIES SHOULD BE MAINTAINED

No commenter suggests that the Department should act to modify the exclusivity of distribution service territories. The statutory, judicial and regulatory policies and the economic rationale that have resulted in the creation and maintenance of exclusive distribution service territories to date are based on the existence of economies of scale and scope that continue to exist today. As a result, a single company operating in each geographical area can provide distribution services at a cost that is lower than would be available in a competitive market (see NSTAR Companies Initial Comments at 26-32; National Grid Initial Comments at 30-37; Union Comments at 16-17). The avoidance of the unnecessary and uneconomic duplication of facilities remains a valid concern and a compelling reason to maintain exclusive service territories. Therefore, the Department should not propose any change to the legislative provisions relating to the exclusivity of service territories for each distribution company as set forth in G.L. c. 164, § 1B(a).

## V. CONCLUSION

The NSTAR Companies appreciate the opportunity to offer comments in this proceeding. As discussed above, the Electric Companies, the Union, LEAN and others have demonstrated that the unbundling of MBIS in the Commonwealth will produce increased costs rather than substantive savings for customers. In addition, these commenters agree that several non-cost factors would be adversely affected by the unbundling of MBIS.

In contrast, those who advocate for the unbundling of MBIS in this proceeding have failed to support their arguments with any demonstration that substantive savings would be produced for customers, and that such unbundling could be accomplished without significant disruption to employee staffing levels. The recommendations of these commenters are based solely on speculation that benefits may result from the introduction of competition for MBIS. Accordingly, the Department should recommend to the Legislature that MBIS remain within the distribution function of electric companies in the Commonwealth. In addition, the Department should maintain exclusive distribution service territories, consistent with precedent and the Act.

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1. 1 The Berkshire Gas Company, Boston Gas Company, Colonial Gas Company, Commonwealth Gas Company, Essex Gas Company, Fall River Gas Company, and North Attleboro Gas Company.

2. 2 This fact directly contradicts the unsubstantiated claim of the Customer Group that distribution system reliability will be enhanced by the unbundling of MBIS (see

Customer Group Initial Comments at 10).

3. 3 The Customer Group and other pro-unbundling commenters virtually ignored customer-satisfaction issues in their comments to the Department.

4. 1 This concern is supported by recent reports in California regarding the bankruptcy of a third-party billing company that served almost 100,000 customers, which left those customers and their distribution companies without access to necessary billing information.

5. 4 Although Sithe mentions several regulatory orders describing the purported benefits of unbundled MBIS, there is scant empirical evidence supporting these benefits, and Sithe notes that such benefits are "theoretical" (id. at 16-20).